

UNITED STATES OF AMERICA  
Before the  
OFFICE OF THRIFT SUPERVISION

In the Matter of	)	
	)	
<b>DOMESTIC BANK</b>	)	Order No.: NE-08-08
Cranston, Rhode Island	)	
(OTS No. 13964)	)	Effective Date: June 30, 2008
	)	
and its Subsidiaries, including	)	
	)	
<b>INTERVALE MORTGAGE CORPORATION</b>	)	
Cranston, Rhode Island	)	
	)	
	)	

**WHEREAS**, Domestic Bank, Cranston, Rhode Island, OTS Docket No. 13964, and its operating subsidiary, Intervale Mortgage Corporation (collectively the “Regulated Entities”), each has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist and an Order of Assessment of a Civil Money Penalty (“Stipulation”); and

**WHEREAS**, pursuant to delegated authority, the OTS Regional Director for the Northeast Region (“Regional Director”), is authorized to issue Orders of Assessment of a Civil Money Penalty where the OTS-regulated institutions have consented to the issuance of such orders.

**NOW, THEREFORE, IT IS ORDERED that:**

**1. Payment of Civil Money Penalty.**

1. The Regulated Entities are hereby assessed, pursuant to 12 U.S.C. § 1818(i)(2), and are jointly and severally directed to pay a civil money penalty in the amount of Eight Hundred Fifty Thousand Dollars (\$850,000.00 U.S.) in the manner required hereby. By no later than Wednesday, July 2, 2008, the Regulated Entities shall make such payment by providing to the OTS a certified check, money order, or bank draft in the aforesaid amount made payable to the order of the Treasurer of the United States. Said payment, under cover of a transmittal letter referencing this Order, shall be sent via a reputable overnight delivery service to:

OFFICE OF THRIFT SUPERVISION  
Attention: Controller's Division  
1700 G Street, N.W.  
Washington, DC 20552

with a copy thereof simultaneously sent, via overnight delivery service, to the attention of the undersigned OTS Regional Director at the OTS' Northeast Regional Office in Jersey City, New Jersey.

**2. Effective Date, Incorporation of Stipulation.**

This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

By: /s/  
Michael E. Finn  
Regional Director, Northeast Region

Date: See Effective Date on page 1

In the Matter of	)	
	)	
<b>DOMESTIC BANK</b>	)	Order No.: NE-08-07
Cranston, Rhode Island	)	NE-08-08
(OTS No. 13964)	)	
	)	Effective Date: June 30, 2008
and its Subsidiaries, including	)	
	)	
<b>INTERVALE MORTGAGE CORPORATION</b>	)	
Cranston, Rhode Island	)	
	)	
	)	

**WHEREAS**, the Office of Thrift Supervision (“OTS”), acting by and through its Regional Director for the Northeast Region (“Regional Director”), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed Domestic Bank, Cranston, Rhode Island, OTS Docket No. 13964 (“Savings Association”) and Intervale Mortgage Corporation (collectively with the Savings Association, “the Regulated Entities”) that OTS is of the opinion that grounds exist to initiate administrative proceedings against the Regulated Entities pursuant to 12 U.S.C. §§ 1818(b) and 1818(i)(2);

**WHEREAS**, in addition to becoming subject to the financial obligations required by the accompanying cease-and-desist order, the Savings Association has made a commitment to pay,

during the third quarter of 2008, \$1.0 million to support financial literacy and credit counseling; and

**WHEREAS**, the Regulated Entities desire to cooperate with OTS to avoid the time and expense of such administrative proceedings by entering into this Stipulation and Consent to the Issuance of an Order to Cease and Desist and an Order of Assessment of a Civil Money Penalty (“Stipulation”) and, without admitting or denying that such grounds exist, but only admitting the statements and conclusions in Paragraph 1 below concerning Jurisdiction, hereby stipulate and agree to the following terms:

**1. Jurisdiction.**

(a) Savings Association is a “savings association” within the meaning of 12 U.S.C. § 1813(b) and 12 U.S.C. § 1462(4). Accordingly, Savings Association is “an insured depository institution” as that term is defined in 12 U.S.C. § 1813(c);

(b) Intervale Mortgage Corporation, a Rhode Island corporation, is an operating subsidiary of Savings Association within the meaning of 12 C.F.R. § 559.2 and is a subsidiary of Savings Association for purposes of 12 U.S.C. §§ 1464(d)(7)(C), 1813(w)(4) and 1818(b)(9); and

(c) Pursuant to 12 U.S.C. § 1813(q), the Director of OTS is the “appropriate Federal banking agency” with jurisdiction to maintain an administrative enforcement proceeding against a savings association and any subsidiary thereof. Therefore, the Regulated Entities are subject to the authority of OTS to initiate and maintain administrative proceedings against them pursuant to 12 U.S.C. §§ 1818(b) and 1818(i)(2).

**2. OTS Findings of Fact.**

(a) Based on information obtained by the OTS through the exercise of its regulatory

responsibilities, including recent examinations, OTS finds that the Savings Association (including its subsidiaries) violated laws and regulations and engaged in unsafe and unsound banking practices, including those summarized in paragraphs (b), (c), and (d) below. The Savings Association (including its subsidiaries) also engaged in residential mortgage lending activities that were conducted in a manner that was unsafe and unsound, deceptive, inconsistent with economical home financing, not in accord with industry best practices and that failed to conform to the guidance in the Federal Banking Agencies' 2001 Expanded Guidance for Subprime Lending Programs and the related 2007 Statement on Subprime Lending with respect to avoidance of abusive lending practices.

(b) There were numerous weaknesses in the Savings Association's internal controls, fraud-detection processes, compliance management, record-keeping, management, asset quality review processes, and lending activities (including credit underwriting) that were contrary to the Interagency Guidelines Establishing Standards for Safety and Soundness (12 C.F.R. Part 570, Appendix A).

(c) In connection with its Field Loan Originators program, which was discontinued in March 2007 at the direction of OTS, the Savings Association engaged or participated in the following unsafe or unsound practices and violations of laws and/or regulations:

- i. The Savings Association, contrary to 12 C.F.R. § 563.161(a), engaged in unsafe or unsound practices by failing to establish adequate controls for, and by failing to prudently monitor and oversee activities with respect to, its Field Loan Originators program;
- ii. The Savings Association engaged or participated in violations of section 8 of the Real Estate Settlement Procedures Act, 12 U.S.C. 2607, and the HUD regulation thereunder at 24 C.F.R. § 3500.14, in connection with payments to persons that OTS has determined to be sham employees;
- iii. The Savings Association engaged or participated in violations of section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45(a)(1), by, inter alia,

establishing and operating a program that allowed sham employees to hold themselves out as employees of a federally chartered savings bank; and

- iv. While the Savings Association was subject to OTS cease-and-desist order No. NE-05-01, the Savings Association violated section 2 of said cease-and-desist order, which restricted various activities and product-delivery mechanisms.

(d) The Savings Association (including its Subsidiaries) also engaged or participated in violations of the following laws and regulations with respect to other aspects of its operations:

- i. 12 U.S.C. § 4903(a)(1)(A) and (B) (Homeowners Protection Act – Requiring Private Mortgage Insurance disclosures),
- ii. 15 U.S.C. § 45(a)(1) (Federal Trade Commission Act – Unfair or Deceptive Practices are Unlawful),
- iii. 15 U.S.C. § 1681g(g) (Fair Credit Reporting Act – Disclosure of credit scores),
- iv. 12 C.F.R. §§ 226.4 & 22 (Truth in lending/Regulation Z -- Requiring disclosure of finance charges and accurate computation of annual percentage rates),
- v. 12 C.F.R. § 226.19(b) (Truth in lending/Regulation Z – Requiring Disclosures on Variable Rate Transactions/Adjustable Rate Mortgages),
- vi. 12 C.F.R. § 226.24(a) (Truth in lending/Regulation Z – Permitting advertising only of actually available terms),
- vii. 12 C.F.R. § 226.24(c) (Truth in lending/Regulation Z – Advertising of terms that require additional disclosures),
- viii. 12 C.F.R. § 560.100 & 101 (Requiring savings associations and their subsidiaries to adopt and comply with prudent written real estate lending standards),
- ix. 12 C.F.R. § 563.161(a) (Requiring management and financial policies that are safe and consistent with economical home financing and the purposes of savings associations),
- x. 12 C.F.R. § 560.170 (Requiring savings associations and their subsidiaries to establish and maintain certain records relating to lending transactions),
- xi. 12 C.F.R. § 563.27 (Requiring that advertising of services and contracts must be accurate),
- xii. 12 C.F.R. § 563.170(c) (Requiring, *inter alia*, the establishment and maintenance of accurate books and records),



- xiii. 12 C.F.R. § 563.180(b) (Prohibiting false, misleading statements and omissions of material facts),
- xiv. 12 C.F.R. § 563.180(d) and 31 C.F.R. § 103.18 (Suspicious Activity Reports),
- xv. 12 C.F.R. Part 564 (Appraisals),
- xvi. 12 C.F.R. § 572.3(a) (Requirement to purchase flood insurance where available), and
- xvii. 12 C.F.R. § 572.5 (Escrow requirements for flood insurance).

**3. Consent.**

Savings Association and Intervale Mortgage Corporation each consents to the issuance by OTS of the accompanying two orders: Order to Cease and Desist and Order of Assessment of a Civil Money Penalty (collectively the "Orders"). The Regulated Entities further agree to comply with the terms of the Orders upon the Effective Dates thereof and stipulate that the Orders comply with all requirements of law.

**4. Finality.**

The Orders are issued by OTS under 12 U.S.C. §§ 1818(b) and 1818(i)(2), and upon the Effective Dates thereof, each is and shall be a final order, effective and fully enforceable by OTS under the provisions of 12 U.S.C. § 1818(i). Additionally, the Order to Cease and Desist, upon its effective date, shall supersede the restrictions imposed on the Savings Association by the OTS's letter to the Savings Association dated March 20, 2007.

**5. Waivers.**

The Regulated Entities each waive the following:

- (a) The right to be served with a written notice of OTS's charges against them as provided by 12 U.S.C. §§ 1818(b) and 1818(i)(2) as well as 12 C.F.R. Part 509;
- (b) The right to an administrative hearing of OTS's charges as provided by 12 U.S.C. §§ 1818(b) and 1818(i)(2) as well as 12 C.F.R. Part 509;

(c) The right to seek judicial review of the Orders, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Orders; and

(d) Any and all claims against OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter and/or the Orders, whether arising under common law, federal statutes or otherwise.

**6. OTS Authority Not Affected.**

Nothing in this Stipulation or the accompanying Orders shall inhibit, estop, bar or otherwise prevent OTS from taking any other action affecting either or both of the Regulated Entities if at any time OTS deems it appropriate to do so to fulfill the responsibilities placed upon OTS by law.

**7. Other Governmental and Non-Governmental Actions Not Affected.**

Savings Association and Intervale Mortgage Corp. each acknowledges and agrees that its consent to the issuance of the Orders is solely for the purpose of resolving the matters addressed herein with respect to the Regulated Entities only, consistent with Paragraph 6 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of Savings Association or Intervale Mortgage Corp. that arise pursuant to this action or otherwise, and that may be or have been brought by: (i) any governmental entity other than OTS, or (ii) any private parties or any other persons or entities that have not signed this Stipulation.

**8. Miscellaneous.**

(a) The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Orders.



(b) If any provision of this Stipulation and/or the Orders is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions thereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

(c) All references to OTS in this Stipulation and the Orders shall also mean any of the OTS's predecessors, successors, and assigns.

(d) The section and paragraph headings in this Stipulation and the Orders are for convenience only and shall not affect the interpretation of this Stipulation or the Orders.

(e) The terms of this Stipulation and of the Orders represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

(f) The Stipulation and Orders shall remain in effect until terminated, modified, or suspended in writing by OTS, acting through its Regional Director or other authorized representative.

**9. Signature of Directors/Board Resolution.**

(a) Each Director of the Savings Association signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of Savings Association to the issuance of the Orders and the execution of the Stipulation.

(b) Each Director of Intervale Mortgage Corp. signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of Intervale Mortgage Corp. to the issuance of the Orders and the execution of the Stipulation.

(c) This Stipulation may be executed in counterparts by the directors after approval of execution of the Stipulation at a duly called board meeting. Concurrent with their delivery of

**WHEREFORE**, each of the Regulated Entities, by their respective directors and duly authorized officers, executes this Stipulation.

OFFICE OF THRIFT SUPERVISION

The signatures of the other directors of Domestic Bank and of Intervale Mortgage Corp. are set out below. Each of the undersigned hereby signs the foregoing Stipulation.

<p>Other Directors of Domestic Bank:</p> <p>_____ Leonard S. Guglielmino, Director</p> <p>_____ James F. Kiley, Director</p> <p>_____ Charles F. McCarthy, Director</p> <p>_____ Daniel Rinaldi, Director</p> <p>_____ Stephen D. Stoller, Director</p>	<p>Other Directors of Intervale Mortgage Corp.</p> <p>_____ H. Jeffrey Baker, Director</p> <p>_____ Craig Baker, Director</p>
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